



Rules for Carpet That is Sold Installed

Informational Bulletin

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Director of Revenue

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To: Retailers Who Sell Carpet

The Department of Revenue has clarified its rules on the tax treatment of carpet that is sold installed. Carpet that is sold installed by using tacks, staples, or tacking strips is now treated in the same manner as carpet that is sold installed by gluing it down. All of these methods of installation are considered permanent installations of personal property into real estate.

How does this change my tax obligations?

This change affects your tax obligations in two ways.

- In the past, if you sold carpet and installed it by using tacks, staples, or tacking strips, you were responsible for collecting and paying Retailers' Occupation Tax based on your selling price of the carpet. With this change, you are responsible for paying tax on your cost price. If you pay tax to your supplier at the time of purchase, you have met your obligations. If you do not pay tax to your supplier, please see the following two headings that describe how to report your tax-free purchases.
- The second change is that certain retail sales you make to construction contractors now qualify for the enterprise zone exemption on building materials. For further explanation, please see the heading referencing construction contractors.

How do I report tax on carpet that I purchase tax-free from an *in-state* supplier?

- For the carpet that you sell at retail (carpet that the customer installs or contracts with someone else to have installed), there is no change. You must continue to collect tax from your customers and report your retail sales on Line 1 of Form ST-1.
- For the carpet that you sell installed (carpet that your company installs for the customer or that you sub-contract to have installed for the customer), you must **not** collect tax from the customer. Follow the steps below.
 1. Report the total receipts from the sale on Line 1 of your Form ST-1.
 2. Report the difference between your cost price and the sales receipts on Item 16 of the Form ST-1 Worksheet for Line 2. Identify the amount as "excess over cost."

Your cost of materials will be included in the amount you compute for Line 3 of your Form ST-1.

How do I report tax on the carpet that I purchase tax-free from an *out-of-state* supplier?

- For carpet that you sell at retail (carpet that the customer installs or contracts with someone else to have installed), you must continue to collect tax from your customers and report your retail sales on Line 1 of Form ST-1.
- For the carpet that you sell installed (carpet that your company installs for the customer or that you subcontract to have installed for the customer), you must report use tax on your cost. To do so, include your cost price on Line 12a of Form ST-1. Figure the tax owed on Line 12b.

How do I report a retail sale made to a construction contractor that qualifies for the enterprise zone exemption?

You must report a retail sale of carpet made to a qualifying construction contractor on Line 1 of Form ST-1. Report the amount of the sale as a deduction on Item 12 of the Form ST-1 Worksheet for Line 2.

The construction contractor must provide you with the appropriate certification to support this exemption. (See 86 Illinois Administrative Code, Section 130.1951 (a) (6) for information about the certification that is required.) The receipts from this sale will not be subject to tax.

When were these rules clarified?

The clarifying language was added to the department's rules effective November 25, 1998.